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I.T.L. Industries Limited
Annual Report
1971

Corporate Directory

DIRECTORS

C. A. BELL, Q.C.
DOUGLAS G. SINCLAIR
FIRMAN H. HASS
J. H. HAWKE
PETER HEDGEWICK
R. W. KEELEY, K.S.G., K.M.
C. W. LEONARDI, C.A.

OFFICERS

PETER HEDGEWICK
President
DOUGLAS G. SINCLAIR
Vice President and Managing Director
M. L. GARLAND
Vice President (Operations)
DAVID VASS
Vice President (Finance)
Treasurer
C. A. BELL, Q.C.
Secretary

AUDITORS

GLENDINNING, JARRETT, GOULD & CO.
Windsor, Ontario

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY, LIMITED
Montreal, Toronto, Winnipeg,
Calgary, Vancouver

Message to the Shareholders

TO THE SHAREHOLDERS:

The year 1971 was truly abnormal in the history of our Company, due in part to the depressed economy, the increasing value of the Canadian dollar in relation to the U.S. dollar, and the decision of our major automotive customers to postpone many model changes. Certain non-automotive accounts also deferred planned investments. Even though the present level of business demonstrates that the economy is turning upward, the change did not occur in time to assist the Company in 1971. At the present time our order books for the Tooling Group are at the highest level in the history of the Company, and the current upswing in tooling and related industries is expected to last for some time.

Sales for the year amounted to \$17,773,000, down from \$21,521,000 in 1970, with the bulk of the reduction appearing in our Tooling Group.

For the first time in the Company's history a loss on earnings is reported amounting to \$659,000. This compares with earnings of \$412,000 in 1970.

To protect our working capital position no common share dividends were paid during the course of the year, and preference share dividends were suspended during the last quarter. Dividend payments will be resumed at the first opportunity.

The imposition of the U.S. surcharge on exports to the United States had an immediate effect on the operation of the tooling companies and its continuance would have seriously affected the Company's future. Grants from the Employment Support Program of the Canadian Government have offset the interim effect of the surcharge.

The companies forming the Tooling Group – International Tools, KNG, Photometric Specialties, Modelcraft Division and Scientific Reproductions – have been consolidated into one functional unit, a step which is expected to result in considerable savings and increased efficiency of opera-

tion. As part of this realignment, Dalkrom Tool & Die Limited of Detroit will be sold.

In recognizing the trend towards plastic molds of increasing size, a Pratt & Whitney duplicating mill, currently the largest in Canada, was installed at International Tools. This major installation was completed with the assistance of the I.M.D.E. program of the Federal Government.

Efforts to diversify the markets for our tool and mold operation were intensified during the year with encouraging results. Substantial new business was obtained from the U.S. defence industry through contracts for molds for ablative materials used for re-entry space vehicles. Contracts were also signed for the manufacture of molds for plastic furniture. It is anticipated that there will be an increasing volume in these lines during the current year.

International Tools (U.K.) Limited enjoyed a good year, in spite of adverse trading conditions which reduced the rate of expansion. The company has been preparing for U.K. entry into the Common Market including the sending of representatives abroad, and as a result of this work expects to continue with its pattern of healthy growth.

Wheatley Manufacturing Limited, a leading supplier of die sets to the tool, die and metal working industries, was also affected by the general economy and reduced metal changes in the automotive industry. Volume was lower, but appropriate adjustments were made enabling Wheatley to maintain a good return.

1971 was a year of good progress for Reflex Corporation of Canada. Organizational changes made in prior years proved worthwhile and the company is gaining recognition as a dependable quality supplier to the automotive industry. The quality control phase was strengthened through the year with additional testing equipment to meet the more stringent quality requirements of the automotive industry.

Following the lead of the Tooling Group, Reflex has started to mold a range of items for the furniture industry.

Increasing emphasis is being placed on research and development of existing and potential product lines. With financial assistance from the PAIT program of the Department of Industry, Trade and Commerce, the Company is developing a family of liquid-proof safety closures all based on the Palm-N-Turn principle. Prototype samples of safety caps for aerosols are now available and the initial reception to this product is excellent.

Marked progress was made in the introduction of our liquid-proof Palm-N-Turn safety cap in the United States and Canada. Many major manufacturers of household chemicals have carried out extensive testing programs on safety packages in glass and plastic. An initial order for market testing has been shipped for one account and further orders are pending. Legislation in both the U.S. and Canada, some of which has already been passed, is expected to make the use of certain safety vials mandatory. The safety features of the Palm-N-Turn have met test protocol of both governments.

Experimental work continued in our reflector pin development and electroform manufacturing to protect our leadership in the reflector and tail light industry. Additional lamps for our product lines were researched and developed. Our retro reflective optic capability is being used to develop an emergency safety triangle as proposed by the U.S. government for automobile and truck use, as well as a much improved slow moving vehicle sign.

In order to complement the introduction of recreational vehicle lighting in the U.S., the Company acquired the assets of Kenton Molded Plastics, Kenton, Ohio in August. In addition, this company supplied plastic components used in the manufacture of roadway markers by Ray-O-Lite

Incorporated in California and will continue to fulfill this role.

During the year under review the operations of a subsidiary, Elco-Wood Industries Limited, were discontinued. The decision to close the plant will allow management to concentrate in its area of specialization. Inventory and equipment have been sold and we are in the process of disposing of other fixed assets.

Progress has been made in control systems through the use of a computer. The computer is now being used in the areas of inventory control, cost control and payroll, and will eventually be applied to production scheduling. A substantial reduction in operating costs has been achieved in the last six months.

During the year labour contracts were negotiated for three major components of I.T.L. Industries - Reflex, Wheatley and the Tooling Group. Agreement was reached without incident at Reflex, after a five day strike at Wheatley, and after a two week strike at the Tooling Group which carried into our current fiscal year. Terms of the agreements were for three years ensuring settled labour conditions for the principal operations of the Company during this period.

Results of our operations in the first quarter of the current year indicate a distinct improvement over 1971. Your directors are hopeful that this trend will continue and strengthen during the course of the year and that we will be able to establish an orderly growth pattern incorporating further diversification of our markets.

The support and loyalty of our employees, shareholders and associates during the year are gratefully acknowledged.

On behalf of the Board of Directors,

PETER HEDGEWICK
March 28, 1972

I.T.L. Industries Limited

and its subsidiaries

Consolidated Statement of Earnings

For the year ended November 30, 1971

	1971	1970
Sales	\$17,638,188	\$21,521,345
Cost of sales including selling, general and administrative expenses	16,316,777	18,746,735
Earnings before the following deductions	1,321,411	2,774,610
Depreciation	1,121,856	1,074,407
Amortization of financing costs	11,375	11,676
Interest on long-term debt	629,085	552,018
Other interest	305,544	322,984
	2,067,860	1,961,085
Earnings (loss) before income taxes	(746,449)	813,525
Income taxes		
Income taxes payable (recoverable)	(236,557)	643,720
Income taxes deferred	103,524	(242,341)
	(133,033)	401,379
Net earnings (loss)	\$ (613,416)	\$ 412,146
Earnings per common share		
Net earnings (loss)	(51.2)¢	14.0¢

Consolidated Statement of Retained Earnings

For the year ended November 30, 1971

	1971	1970
Balance, beginning of year	\$ 1,625,568	\$ 1,719,273
Add: Net earnings (loss) for the year	(613,416)	412,146
	1,012,152	2,131,419
Less: Dividends paid – preference	142,943	192,701
– common		313,150
	142,943	505,851
Balance, end of year	\$ 869,209	\$ 1,625,568

Consolidated Statement of Source and Application of Funds

For the year ended November 30, 1971

I.T.L. Industries Limited and its subsidiaries

SOURCE OF FUNDS

From operations

Net earnings (loss) for the year
Depreciation
Amortization of financing costs
Deferred income taxes

Proceeds from long-term debt
Demand bank loan
Grant from federal government
Life insurance, cash surrender value
Disposal of investment

APPLICATION OF FUNDS

Fixed asset additions, net
Reduction of long-term debt
Demand bank loan
Purchase of preference shares for cancellation
Acquisition of subsidiary (net of working capital)
Life insurance, cash surrender value
Organization and financing costs
Patents, net
Dividends paid

INCREASE (DECREASE) IN WORKING CAPITAL

WORKING CAPITAL, BEGINNING OF YEAR

WORKING CAPITAL, END OF YEAR

1971	1970
\$ (613,416)	\$ 412,146
1,121,856	1,074,407
11,375	11,676
103,524	(242,341)
623,339	1,255,888
1,013,239	1,066,202
	825,000
	158,000
49,450	
59,100	
1,745,128	3,305,090
830,191	2,467,327
538,403	341,930
825,000	
34,445	2,086
	367,400
	32,850
	56,932
13,811	21,338
142,943	505,851
2,384,793	3,795,714
(639,665)	(490,624)
3,631,358	4,121,982
\$ 2,991,693	\$ 3,631,358

Consolidated Statement of Contributed Surplus

For the year ended November 30, 1971

Balance, beginning of year
Add: Discount on preference shares purchased for cancellation
Grant from federal government under assistance program
Balance, end of year

1971	1970
\$ 167,257	\$ 8,218
12,305	1,039
	158,000
\$ 179,562	\$ 167,257

Notes to Consolidated Financial Statements

November 30, 1971

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Accounts of subsidiaries expressed in currencies other than Canadian have been included on the following basis:

Fixed assets at the rate of exchange prevailing at the time of acquisition, current assets and current liabilities at the rate of exchange prevailing at November 30, 1971, and earnings at the average rate of exchange throughout the year.

2. Bank advances

Bank advances are secured by a general assignment of accounts receivable.

3. Income taxes

	1971	1970
Deferred income tax charges and credits.		
Deferred income tax charges expected to be realized in future years due to the application of losses against future years' taxable income	\$ 960,197	\$1,023,467
Deferred income tax credits due to timing differences, principally in claims for capital cost allowances for tax purposes in excess of depreciation charges	(968,528)	(928,275)
	<u>\$ (8,331)</u>	<u>\$ 95,192</u>

Realization of the deferred income tax charges is contingent upon the Company and certain subsidiaries earning sufficient profits in future years. In the opinion of the directors and management it is virtually certain that future earnings of the Company and certain subsidiaries will be sufficient to realize these benefits. Not included in the amount of deferred income tax charges is the tax effect of loss carry forwards of approximately \$400,000 in certain subsidiaries. Not recorded in deferred income tax credits is approximately \$266,000 in connection with differences between depreciation and capital cost allowances in prior years in certain subsidiaries.

4. Long-term debt

(Secured by mortgages and floating charges over assets)

	1971	1970
6.20% Secured Sinking Fund Debentures, Series A, maturing June 15, 1984. Sinking Fund payments of \$50,000 are required annually until maturity.	\$ 650,000	\$ 700,000
6½% Secured Sinking Fund Debentures, Series B, maturing December 15, 1985. Sinking Fund payments of \$30,000 are required annually until maturity.	450,000	480,000
8½% Secured Sinking Fund Debentures, Series C, maturing June 15, 1988. The Company may at any time after June 15, 1972 redeem before maturity all outstanding debentures. Sinking Fund payments of \$100,000 are required annually to June 15, 1988.	1,700,000	1,800,000
8% Convertible Sinking Fund Debentures, 1969 Series, maturing October 1, 1988. The Company may at any time redeem before maturity, all outstanding debentures. Sinking Fund payments of \$150,000 are required annually from October 1, 1980 to 1984 and \$200,000 from October 1, 1985 to 1987. (For details of conversion privilege see note 5 below)	3,000,000	3,000,000
8-7/16% loan, maturing July 15, 1979. Principal payments of \$265,000 are due in the year.	1,772,995	908,202
Other long-term debt, maturing to 1976. Principal payments of \$93,403 plus interest are due in the year.	426,021	439,505
	<u>\$7,999,016</u>	<u>\$7,327,707</u>

5. Share capital

Common Shares

There are Share Purchase Warrants entitling the holders thereof to purchase 15,000 Common Shares of the Company (subject to certain adjustments) up to June 1, 1978 at a price varying from \$15 to \$20 per share (subject to certain adjustments) according to the date the warrants are exercised.

Under the terms of the issue of the 8% Convertible Sinking Fund Debentures, 1969 Series, each \$1,000 Debenture is convertible into 50 Common Shares on or before October 1, 1974, decreasing annually to 33 Common Shares on or before October 1, 1984.

165,000 Common Shares of the authorized 3,015,669 Common Shares are reserved against conversion of the 1969 Series Debentures, outstanding at November 30, 1971, and the exercise of the Share Purchase Warrant to purchase 15,000 Common Shares of the Company.

Preference Shares

The preference, rights, conditions, restrictions, limitations and prohibitions attached to the Series A Preference Shares require that, commencing in 1966, the Company allocate on or before the first day of March in each year an amount of \$25,000 as a purchase fund for the purchase of such shares for cancellation. During the year the Company acquired for cancellation 1,870 shares. At November 30, 1971, 1,995 Series A, Preference Shares (1970; 125 Shares) were held by the Company and subsequently cancelled. The effect of these transactions is reflected in the Financial Statements. The balance of the purchase fund is \$46,687.

The Series B, Preference Shares are redeemable at par by the Company at any time after June 1, 1978. Each Series B, Preference Share is convertible into 1.667 Common Shares on or before June 1, 1973, decreasing annually to 1.250 Common Shares on or before June 1, 1978.

Dividend arrears on the cumulative preference shares amount to \$77,705 at November 30, 1971.

6. Contingent liabilities

An appeal is being taken against the decision of a court in the United States in an action brought against the Company and certain of its subsidiaries for alleged patent infringement. Pending hearing of this appeal, proceedings for determination of damages have been suspended. Counsel for the Company believe that the appeal will be successful.

A subsidiary of the Company is contingently liable for \$238,889 for repayment of Government grants. Compliance with the terms and conditions of the grant will result in annual reductions and over a five year period the elimination of the contingent liability.

7. Statutory information

(a) The aggregate direct remuneration to the directors and senior officers of the Company was \$133,545 (1970 \$212,000).

(b) Sales by class of business were as follows

	1971		1970	
Tools and dies	\$11,872,863	67.3%	\$16,489,158	76.6%
Plastic products	5,765,325	32.7%	5,032,187	23.4%
	<u>\$17,638,188</u>	<u>100.0%</u>	<u>\$21,521,345</u>	<u>100.0%</u>

The I.T.L. Group of Companies

Wholly-Owned Subsidiaries or Divisions

INTERNATIONAL TOOLS, LIMITED

Sandwich P.O., Box 68, Windsor, Ontario.

- Manufacturers of injection and compression molds for the production of plastic parts and components for the automotive, electrical appliance and general industries.

PHOTOMETRIC SPECIALTIES

Sandwich P.O., Box 68, Windsor, Ontario.

- Manufacturers of injection molds for the production of optical lenses, and retro-reflective lenses for automobiles, highway safety devices and other products.

MODELCRAFT

Sandwich P.O., Box 68, Windsor, Ontario.

- Manufacturers of precision models of wood and reinforced plastic, used in the manufacture of plastic molds and die-casting dies.
- Suppliers to the various tool companies in the Group as well as outside tool shops.

SCIENTIFIC REPRODUCTIONS

Kingsville, Ontario.

- Manufacturers of retro-reflective surfaces by an electrolytic process. These surfaces are incorporated into plastic injection molds by Photometric Specialties.

KNG TOOL AND MOLD LIMITED

75 Bessimer Road, London 52, Ontario.

- Manufacturers of injection and compression molds for the production of plastic parts and components for the automotive, electrical appliance and general industries.

DALKROM TOOL AND DIE CORPORATION

6160 East Davison, Detroit, Michigan 48212.

- Manufacturers of injection and compression molds and die-casting dies for the production of plastic parts and components for automotive, electrical appliance and general industries.

INTERNATIONAL TOOLS (U.K.) LIMITED

Cressex Industrial Estate, High Wycombe, Bucks, England.

- Manufacturers of injection and compression molds for the production of plastic parts and components for the automotive, electrical appliance and general industries.

WHEATLEY MANUFACTURING LIMITED

2590 Quellerie Avenue, Windsor, Ontario.

- Canada's largest producer of steel die sets. Supplies to leading tool and die companies throughout Canada. Also manufactures special bushings and die hardware.

WHEATLEY ECONOMY DIE SETS, INCORPORATED

23751 Dequindre, Hazel Park, Michigan 48030

- Warehouse and distributors of Wheatley products in the U.S. Market.

REFLEX CORPORATION OF CANADA LIMITED

P.O. Box 1180, Amherstburg, Ontario.

- Molds and assembles plastic components for the automotive and other industries.
- Operations include chrome plating, vacuum metalizing and painting of molded parts.
- Manufacturers of Palm-N-Turn safety containers.

RAY-O-LITE, INCORPORATED

16102 Cothard Street,
Huntington Beach, California 92647.

- Manufacturers of highway safety products and distributors of products of Ray-O-Lite International Corporation in the western U.S.A.

RAY-O-LITE INTERNATIONAL

P.O. Box 960A, Detroit, Michigan 48232.

- Sales of retro-reflective products for highway safety, automotive aftermarket, recreation and farm use.

KENTON MOLDED PLASTICS

Kenton, Ohio.

- Manufacturers of injection molded reflectors and plastic parts for I.T.L. operations and third parties.

